1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

made by Persians in the Holy Cities. Rifles with Russian-made barrels were made in an old-established factory at Sulaymaniya and thence distributed over all Kurdistan. Tanning and leather-work were practised in the suburbs of Baghdad; but the products—shoes, belts, and saddles—were of low quality. The local river-craft, of primeval design, were fashioned crudely from imported wood and Euphrates bitumen, and use was made in lower 'Iraq of the lashed poles of the skin-supported *kelleks* which were drifted downstream from Mosul and Diyarbakr. Beds and baskets were made from the date frond, mats from the marsh reeds. These, with some soap-making and the Jewish industries of 'araq distillation and the fabrication of forged antiquities, complete the meagre list.

The 'Iraqi-Persian transit trade, a main economic factor, has been elsewhere mentioned (p. 13). To it as an 'invisible export' should be added the proceeds of the great Shi'i pilgrimages—life-blood of the Holy Cities—and those of Sunnis to the shrine of 'Abd al-Qadir al-Gaylani; and, with these, the money spent in 'Iraq by travellers and archaeologists, missions, and foreign consuls.

Apart from export and transit operations, the trade of the territory consisted of the import of those needed commodities which the country could not itself supply. The imports, except for some part brought overland from Syria, Najd, or Anatolia, all passed through Basra and were distributed from Baghdad, the unquestioned commercial capital. Cotton cloth, handled by Jewish and British firms, formed three-quarters of the whole. Most of this came from Manchester, a little from India, some silken and woollen goods from France and Austria. Coal reached 'Iraq from Wales, coffee from Brazil and the Yaman, gunny-bags and indigo from India, kerosene from the United States, sugar from Egypt, France, and Austria, wood and tea, yarns and spices from India, date-box wood from Austria, tobacco from Persia. Such, with lesser quantities of paper, hardware, zinc sheets, colours, candles, and fezes, were the imports which were distributed to the limits of the rural and urban population by way of merchant's warehouse, vaulted or mat-covered bazaar, village shop and wandering pedlar.

The currency of the three wilayas was that of the copper qirsh (piastre), the silver majidiya, and the gold lira of the time, a stable coinage adequate to all needs. The intrusion of the Indian rupee in Basra and of Persian coins in the middle Tigris towns and Kurdistan was of little inconvenience in an age of steady exchange rates, no restrictions, and no paper-money. A multitude of local weights and measures varied capriciously from district to district. Banking was represented by the Imperial Ottoman Bank, and by the shrewd operations of many local *sarrafs*.

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439 still divided between the British and the local Jewish firms. Of the former, those with offices at Baṣra in 1914 were Messrs. Lynch, Gray Mackenzie, Strick, and the Basra Trading Company, with the American firm of MacAndrew Forbes handling liquorice. At Baghdad British firms were Lynch, Blockey Cree, and Sassoon of Bombay. Attempts were twice made by an Englishman to found a tailoring business. The Imperial Ottoman Bank had branches at [453] Baghdad and Baṣra under French or Anglo-French control; the Imperial Bank of Persia appeared, only to disappear again as being unwelcome (to its rivals) in Turkish territory; the Eastern Bank opened in Baghdad in 1912. The local currency remained stable, paper money still unknown, and exchanges predictable. Much damage to trade was done by Walis' unwise instructions in the direction of price control and of prohibition on the export of foodstuffs in the supposed interests of 'Iraqi consumers. Nothing stopped shameless hoarding by the rich in years of scarcity.

369 178 579 Outside the towns and placid suburban areas the picture of tribal near-anarchy painted by foreign travellers and residents in the 'Iraq of 1900 to 1914 is a painful one. But though it is true that standards of security were low, lawless episodes despairingly repeated, and Government forces never adequate, conditions had been much worse in the past. The many new townships and police posts, increasing traffic, wider cultivation, and (for better or worse) greater Government penetration showed substantial advance from the conditions of the previous century. It was in part misleading that quicker communication tended to ventilate throughout the country episodes formerly of mere local interest. Standards, too, with the Europeanization of Government and the increased foreign interests, had become more exacting: the activities of raiders or bandits were counted scandalous where, years ago, they had passed as normal and unremarked. The tribes were more subdivided and thus weakened; resistance to Government by a united tribe was ever rarer. The shaykhs increasingly became involved in town life and politics, and Government decreasingly willing to close its eyes to tribal disobedience; direct administration was the order of the day, and for every day and place in which tribal violence was reported there were long periods and wide spaces of calm.

619 721 The Shammar, torn by their own rivalries and at perpetual feud with the Milli and 'Aniza, presented until 1909 the complete picture of desert restlessness. Thereafter, the fall and death of Ibrahim Pasha Milli redressed the balance in Shammar favour; the Milli disappeared as a formidable unit, the northern 'Aniza alone disputed Shammar ascendancy. But their successful robberies did little to strengthen the tribe, whose official shaykh the Turks changed annually; and an outbreak of fighting with the

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goods from the trans-'Iraq route to Muḥammara and the new Persian port of Bandar Shahpur all contributed to lessen the long-profitable transit trade, whose sentence of extinction could not, it seemed, be long delayed unless the Mediterranean route across Syria could be developed; and of this there were hopeful signs.

Banking continued in the hands of local *ṣarrafs* and the three British Banks: the Ottoman, Eastern, and Imperial Bank of Persia. The adoption of the decimal system was officially proclaimed in 1931, though twenty years later the *ḥuqqa*, the *taghar*, the *mann*, and the *dhira'* were still widely in use. Wholesale and retail trade followed familiar channels, with British firms predominating in the foreign element; 30 per cent. of the country's imports were of United Kingdom origin, though neither in this nor in any commercial operation did the Mandatary claim advantage over competitors. Imported goods found favour less by quality than by cheapness; this allowed Japanese competition for the first time to intrude, especially in cheap silk and cotton textiles. Woollen goods and steel came from Belgium, sugar from Holland, vehicles from America, wood from Scandinavia and Rumania, rice and tea from India, and most of the rest, notably cotton textiles, pumps and machinery, from Great Britain. The exports, as ever, were of dates, grain, hides and skins, wool, intestines, liquorice, and live animals. These at lowered prices held their own satisfactorily during the period of depression. Monetary conditions in Europe led, after 1930, to export of gold from 'Iraq, giving a temporary stimulus to its economy.

Until the hard times of 1929 to 1932, which they survived creditably, municipal development and the public services were expanding. A Municipal Law of 1929 superseded the Turkish regulations, municipal revenues were overhauled, and the hundred townships of every size and degree pursued their work of street improvement, bridge building, and provision of gardens, electric power plants, and sometimes officials' houses. In the major towns a period of rapid suburban development began, absorbing capital used hitherto in the transit trade. A 'New Baghdad' was planned on the right bank of the Tigris. The concession given in 1912 for electric power was amended and confirmed, after years of negotiation, in favour of the Baghdad Power and Light Company, and a new power-house came into operation; the tramway project was abandoned. Tolerable hotels appeared in the three cities and in Kirkuk, supplemented by Railway rest-houses at smaller towns. The technique of brick-making, the methods in the building industry, the types of modern dwelling-house, domestic equipment, the scale and resources of the shops: all these advanced incomparably beyond Ottoman standards. European dress was

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by the recruitment of Kurdish and Arab companies. The 'Iraq Police, with diminished British participation, remained a smart and reliable service adapted well to its increasing duties. It contained, during those years, rather less than 9,000 men, including a mobile force of some 750. The Royal Air Force, which since 1932 played no part in 'Iraq's internal security in spite of occasional requests by Government to do so, maintained its own bases and training installations. Mosul and Hinaydi camps and airports and former R.A.F. landing-grounds throughout 'Iraq were handed to the 'Iraq authorities at the close of this period, and the R.A.F. began to install itself, late in 1936, at Dhibban camp by Lake Ḥabbaniya.

Financial administration continued to show the prudence and orthodoxy with which 'Iraqi finances had been handled from the first. This was the easier since the period of depression ended with 1933, and the years following showed a relatively prosperous situation. Improvements were introduced into income-tax and land-revenue procedure and Customs administration. The currency was stable and respected. The last remnant of foreign debt was extinguished; but discussions on a new loan, to be obtained in London through Baring Bros., had up to 1937 no practical issue. The oil dead-rents first received in 1932, and later the royalties, were allotted to capital works—irrigation projects, buildings, roads—included in a programme of which the items were revised in 1931, 1935, and almost annually thereafter. A law establishing an Agricultural and Industrial Bank was passed in 1935; it commenced operations, humbly at first, in the following year.

4. BAKR ṢIDQI

The Hashimi Ministry, more forceful than any 'Iraq Government since 1932, appeared by midsummer 1935 likely to endure for a long spell of office. Yasin Pasha openly anticipated ten years of power, though, little as he esteemed democracy, he had no thought of dictatorship. The tribes were frightened, the Palace weak, the opposition outwardly subdued.

But less obvious forces were at work. The King, his own position enfeebled by his personal shortcomings and the misalliance and flight of his sister with a Rhodian hotel servant and her conversion to Christianity, was willing to see a change of Ministry and even hinted at this to Yasin through intermediaries. In the Cabinet, though a scarcely anticipated harmony reigned between Yasin and Nuri Sa'id, his Foreign Minister, the latter was at constant loggerheads with the Minister of Interior. Rashid 'Ali, indeed, gave offence by his impetuous decisions, his favouritism, and the avarice which in defiance of precedent led him, when Sayid Maḥmud the Naqib died in 1936, himself to assume the

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equivalent to first 15, later 25, and finally 35 per cent. of the Japanese imports. Russian competition, begun with formidable impetus in 1933, did not persist.

The transit trade with Persia, which by all indications had been under sentence of disappearance, survived though with a gradual loss of volume. It was aided by central and northern Persia's import of oil products, and by a small intake from the Levant across 'Iraq. Persian attempts to divert traffic from 'Iraqi routes, however, continued, and Muḥammara (now Khoramshahr) began to replace Baghdad as the financial centre of the trade.

The banking and financial background of internal business varied little, though an intention of closer Government control was shown by the law restricting certain occupations to 'Iraqis, by insistence on security deposits from foreign insurance companies, by the expressed willingness of Government to participate directly in industry and, early in 1938, by a law for the control of banking. The currency was well maintained on its sterling parity, the Board in London contributing an annual profit to the 'Iraq Treasury. The handling, transport, and distribution of merchandise was in some degree modernized; shops and hotels of European pattern multiplied, not in Baghdad alone, with Jews and Christians still prominent in these activities. Features of the period, which helped to bridge the 'Iraq of the 'twenties to that of the mid-century, were the beginnings of new suburbs, the modern villas, the many private cars, and the rudimentary bus services of the principal cities. They served a public in which the townsmen had in hundreds renounced Arab dress for European, had often doffed the characteristic 'Iraqi *sidara* in favour of a hat or bare head, and could walk out with ladies among whom the veil was no longer universal.

Local industry advanced but slowly. To the enterprises mentioned on earlier pages (p. 210) the years from 1932 to 1937 had little to add. One or two of the small textile factories were enlarged with German machinery and Czech operators; more small cigarette factories and more mechanized brick kilns were established, one-room ice and soda factories multiplied, a third cotton ginnery was planned for the Kut area, and enterprises for the making of confectionery and matches came into humble existence. Yasin Pasha's cement project, in spite of a visit by German experts, failed to materialize, and another cement scheme, in which an English promoter was active, inspired no confidence.

In oil development, on the other hand, these years were highly significant. The 'Iraq Petroleum and the B.O.D. Companies (p. 211) made annual dead-rent payments to a combined total of more than half a million pounds yearly until 1935, and thereafter the I.P.C. royalties alone doubled this amount. After a ceremonial

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of further contributions to them. The Assyrians still in 'Iraq, to whom conscription was now applied without disturbance, were established in villages neither overcrowded nor unprosperous, and were reluctant to move. The 'Iraq Government officially assured the League that their status as 'Iraqi citizens was secure; but the return to 'Iraq of the Mar Sham'un, who had taken British nationality and now lived in Cyprus, could not be considered.

The forward movement of foreign trade and prosperity which had marked the period 1935–7 was notably checked in 1938. Produce prices fell, Government's capital-works allotments were overspent, and the later days of the Madfa'i Ministry were financially unhappy. Nevertheless, a monopoly for (packed) date exports was awarded by the Baṣra Date Board to a British firm, Messrs. Andrew Weir, and arrangements for the tobacco monopoly approached finality. The Agricultural and Industrial Bank was prolific of projects, a Cement Company invited funds from the public, and Government remained ambitious to erect its own oil refinery. A concession for the oil of Baṣra wilaya—more strictly, of all 'Iraq territory south of the two existing oil-concession areas—was granted in 1938 to the Basra Petroleum Company, an *ad hoc* creation of the I.P.C. group, upon terms similar to those governing the B.O.D. concession of 1932. The Banco di Roma opened a branch in Baghdad early in 1938. A British adviser was recruited for the Ministry of Communications and Works, G. N. Loggin, of the Egyptian service, in succession to Wheatley who had retired—a serious loss—in 1937, and an expert with long Egyptian experience, J. D. Atkinson, was secured in 1939 for Irrigation, where he remained for seven years. Ward, remaining as Port Director till his death in 1942, gave up the Directorship of Railways early in 1939; he was succeeded for a year and for six months respectively by Loggin and by C. F. Nicoll, after which the post was held, for nine years from 1941, by H. C. Smith. E. G. Hogg retired from the Financial Adviserships in 1939, leaving the post vacant for two years thereafter.

In the field of foreign relations, agreements were concluded, on bedouin rights and on commerce respectively, with Sa'udi Arabia and with Egypt. Turkey was blamed for its pressure to obtain Alexandretta and its sanjaq, which were held to be Arab. Major demonstrations in Baghdad, to be repeated in 1939, condemned the French for the shortcomings of their policy in Syria. A commercial treaty was signed with the United States, though American Zionist sympathies were not unsuspected. The Vatican appointed another Apostolic Delegate to Mosul, this time a Dutchman. Diplomatic relations were opened with Belgium and Hungary. The King of Italy was recognized as Emperor of Ethiopia, and

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Politics and war-attitude apart, conditions in the territory throughout 1940 were as secure and tolerable as could be hoped. A number of offenders sentenced by the courts martial of previous régimes were liberated, the State of Emergency at al-Rashid camp, in force since March 1939, was brought to an end. Ṣubiḥ Najib was pardoned and released. The Ministry, to whom in some circles the revered Gaylani name was an asset, declared war on immorality, shut places of evil entertainment or drunkenness, and ostentatiously improved Waqf buildings. The foundation stone of the Fayṣal Mosque was laid. Observance of the Ramaḍhan fast was enforced by the daytime closing of restaurants. The completion of the Baiji–Mosul section of the railway, with its long tunnel, permitted at last a direct Baghdad–Istanbul service, though rolling stock available for use was of the scantiest. Work at the Ḥabbaniya reservoir was pressed forward. Oil production was normal again since the month-long interruption in September 1939, and both pipelines remained in use until the stoppage of pumping, on the Tripoli branch into Vichy–French territory, in July 1940. The sowings of cotton were much increased, and 25,000 bales produced. The Government tobacco monopoly was brought into effect, to the chagrin of many Kurdish growers whose freedom of disposal it curtailed. Agriculture was everywhere encouraged with a view to full national self-sufficiency, though the disastrous spring floods were a reminder of its precariousness.

Commercial and industrial life strove to maintain normality, or even progress. An ambitious Co-operative Society to produce fruit preserves was founded. The Agricultural and Industrial Bank was busy with loans to cultivators, and with the sale and servicing of agricultural machinery; it advanced money also to a new ginnery at 'Aziziya, took shares in the 'Iraq Cement Company, and helped a vegetable-oil extraction plant. Work proceeded on the Baghdad automatic telephone installation. The budget for 1940–1, which allotted a third of all revenues to the Army, found room for the cost of completing the irrigation work on the Abu Ghurayb, and for the Ḥawija project, the Diyalā weir, the Shamiya river improvement, and the 'bunds' around Baghdad. The credit allowed by the banks and *ṣarrafs* was extended or restricted according to the war news, market prices rose and fell, Government's control in the economic field was discreet and indeed largely inoperative. Shortage of shipping and transport vehicles were a serious hindrance to the export trade, whether conveyed by sea or by the land routes. A Turkish mission visited Baṣra with the hope of securing a southern gateway of entry for their country. The loss of French purchases of 'Iraqi wool was severely felt; trade with Japan on the contrary seemed likely to develop fast.

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channels of international trade were under frequent exploration at 'Iraqi or foreign initiative; during 1945–50 approaches were made by Italian, Yugoslav, Czech, Spanish, Pakistani, and Japanese governmental or commercial bodies. The Persian transit trade by way of Khaniqin persisted, but on no scale comparable with that of a generation earlier and with small hope of increase; and both Persia and Turkey used routes through 'Iraq for the export of small quantities of their goods. The general aspect of 'Iraq's foreign trade was thus, at the end of 1950, on a scale which must seem paradoxically humble in quantity and value for the country's size and potentialities. It reflected the continuing precariousness and backwardness of its agriculture, the slightness of its industry, and the lack of marketable natural resources other than oil. But the new age of accelerated development which could be expected to date from 1951 would not, it was certain, fail to affect and increase both its production and its absorptive power.

Foreign and 'Iraqi Banks, and the *ṣarrafs*, whose numbers the exodus of Jews had diminished, offered the normal services to trade in the provision of credit and discounting of bills. Insurance facilities were given by branches or agents of many British companies, and an all-'Iraqi Insurance Company was in 1950 a project designed on patriotic lines to 'diminish economic dependence' on the world abroad. The currency issued and managed by the National Bank since July 1949 remained that of the 'Iraqi dinar based on sterling, to which bloc the country belonged—but not without a movement or outcry, favoured by some economists and patriots, to secede from it.

Agriculture must remain ever the country's chief resource, and was still the life's occupation of more than two-thirds of its people. Previous pages have referred to the essential problems of 'Iraqi farming and shown that, for all the efforts of a small department to solve them, little had so far been done to modify the country-wide ancient practices, ignorances, deficiencies, and dangers. But there were, by the mid-century, many hopeful signs. The problems were understood; the social as well as the economic importance of a prosperous countryside, and its connexion with security and with politics, were appreciated. Modern agriculture had attracted the interest and efforts of a part of the educated and capital-owning public; there were even those who preferred it to politics! Tribal shaykhs as well as town-dwelling landowners were found, here and there, to be mechanizing their holdings, abandoning ancient methods and, partnered with scientists, eagerly experimenting. New crop varieties were under trial, the power and range of pumping installations had multiplied, mechanization was diminishing dependence on the indifferent labour of crop-sharing peasants.

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to the greater amount of labor required for sugar beets, a single family can probably cultivate a larger area in cotton. Up to the present, tests have not found a variety of sugar cane adapted to Iraq, but both the methods and the scale of the experiments have not been adequate enough to prove conclusive. If further experimentation does result in the discovery of a well- adapted variety, the production of cane may be preferable since cane yields are generally higher than beet sugar yields and cane production requires less skill. Moreover, the farmers in Amara in southern Iraq, where cane would be grown, are at least as much in need of a new crop as those in the North.

The Mission therefore believes that further investigation and experimentation over the next few years are required before a sound decision can be reached on the production of sugar. For this purpose it suggests that two experts be engaged to direct further research, one in beet and the other in sugar cane. During the period of experimentation it may also be desirable to invite a leading foreign sugar company, acquainted with the production and processing of both beet and cane, to make a study and recommendations on the best way of organizing the cultivation and processing of sugar.

Production Credit and Marketing

A considerable increase in farm income could ultimately be achieved through the provision of more ample agricultural credit, the establishment of storage facilities for crops and the organization of cooperatives.

The resources of the state-owned Agricultural Bank, the only agricultural credit institution, are insufficient to meet existing needs for credit. In many cases farmers must either borrow money from private lenders at exorbitant rates of interest or sell their crops in advance of the harvest at substantial discounts. Although the Bank has an authorized capital of ID 1,000,000, the government has paid in only ID 550,000 and the Bank has been compelled to borrow ID 300,000 to supplement its slender resources. In November 1949 the Bank was forced to suspend lending except for small amounts and not until a year later was it able to resume credit operations on a modest scale. It is vital that farmers be

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enabled to obtain sufficient credit to buy seeds, fertilizer, livestock, machinery and other means of production and to make it unnecessary for them to sell their crops immediately after harvest at extremely low prices. The Mission therefore suggests that the Development Board provide sufficient funds to raise the paid-in capital of the Bank to about ID 2,000,000. This should permit the Bank to expand its credit operations and refund its borrowed resources. Action to enable the Bank to increase its lending will be largely ineffective, however, unless at the same time greater care is exercised to insure that loans are promptly repaid and that farmers, who are often improvident, borrow only for purposes which will increase their output. In the past a considerable portion of the Bank's capital has become frozen as the result of repeated extensions of the maturity dates on its loans.

Good storage facilities for grain and perhaps other crops would reduce losses due to infestation, improve the quality of grain, assist in the stabilization of prices and provide some assurance against famine. At present grain is often stored in the open or in inadequate buildings and sheds. A modern 5,000-ton grain elevator has recently been erected in Baghdad, and another of 40,000 tons is projected for Basra to serve the export trade. There is, however, an urgent need for less elaborate and smaller storage facilities throughout the grain-growing areas. These could be of simple concrete or corrugated steel construction and range in capacity from 1,000 to 3,000 tons. Simple cleaning machinery would be desirable in order to remove impurities from the grain. Such storage facilities, which might have a total capacity of about 75,000 tons, would presumably be owned and operated by the Grain Board, an autonomous government agency, and would need to be closely controlled so that the Agricultural Bank could with safety make loans against grain stored in them by farmers and merchants. Under such conditions, more merchants would probably enter the market to bid for grain at harvest time and farmers themselves would not be under the necessity of marketing their grain immediately after the harvest irrespective of the level of prices.

Although an impressive law on cooperatives has been put on the statute books, almost nothing has been done to organize effec-

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or because the investment is in a new and untried field which does not for the moment appeal to private capital. For the chemical plant proposed by the Mission the latter would probably be the case. The government apparently is also furnishing all of the capital for the oil refinery. Wherever complete government ownership is considered necessary, it would be desirable to have the Development Board act as the government's agent in putting up the necessary capital.

On the other hand, the existing Industrial Bank should be used as the agency for giving needed assistance to industry in all cases where the need is for expansion of present capacity or where there is a prospect of private participation in establishing new industries. This Bank, which began operations in 1946, has already performed useful work in promoting industry. At the end of February 1951 it had outstanding loans totaling ID 238,650 and participations in industrial enterprises amounting to ID 629,272. It has been handicaped, however, by a shortage of funds, since the government has paid in only ID 600,000 out of an authorized capital of ID 1,000,000. Its resources have to some extent been supplemented by borrowing ID 100,000 and ID 200,000 respectively from the Awqaf Administration and the National Bank. The Mission suggests therefore that the Development Board provide the means for gradually increasing the Bank's capital by about ID 5,000,000 which the Bank would be authorized to use for the making of loans to, and investments in, industry within the framework of an overall program approved by the Development Board.

Aside from making loans for production facilities, the Industrial Bank could assist industry by financing the construction of a bonded warehouse at Baghdad, so that credit could be extended on materials stored therein. The absence of such warehousing facilities has caused a chronic shortage of working capital in most industrial enterprises, for under existing conditions much of their capital is tied up in stocks of supplies.

The Bank's capital should be used primarily as a revolving fund. The Bank should generally dispose of its industrial shares whenever an enterprise becomes profitable and therefore capable of attracting more private capital. Profit-making assets should be kept only to the extent necessary to maintain a reserve against possible

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losses. While the Bank should presumably show a small profit to inspire confidence in its operations, it should not retain its participation in profit-making enterprises for the sake of maximizing its profits, particularly when this limits its ability to assist other industries.

To prepare the Bank for its expanding operations, its staff needs to be strengthened by providing for the appointment of an expert with wide industrial experience to head its Industrial Schemes Section and for the establishment of a small-business branch to pay special attention to the needs of small enterprises. The Bank should, of course, have access to the corps of technical specialists which, at a later point in the report, the Mission recommends should be attached to the Development Board.

Dangers of Excessive Protection

Particular care should be taken that government assistance does not foster inefficient industries at the expense of the country's standard of living. This danger is by no means unreal. A Law for the Encouragement of Industry, originally enacted in 1929 and replaced by a new act in 1950, provides limited but generous exemptions from income and surtaxes and customs duties, and government land free of rent for 10 years. Iraqi-owned industrial enterprises can qualify for these benefits as long as they primarily use raw materials available in Iraq or produce goods imported in considerable quantities. Neither of these conditions is necessarily relevant to efficient production; and it is therefore suggested that the law be amended to stipulate that, in general, such benefits should be accorded only to enterprises which have a reasonable prospect of becoming efficient enough to withstand foreign competition.

Industry is also protected in many cases by high import duties and in some cases, such as cotton yarn, beer and cement, by import prohibitions. In a small country like Iraq, where the limited market affords opportunities for only one or two plants in each field and where the entrepreneurial class is small, there is an acute danger of monopoly and attendant high prices. In Iraq this danger is aggravated by a tendency in some industries to emphasize limited production with high profits per unit rather than mass production with lower unit-profits. While the Mission recognizes the need for

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centers such as Amara and Kut are linked neither by rail nor by all-weather roads to Basra and Baghdad.

In Basra, Iraq possesses an excellent port capable of handling a considerable increase in traffic. Upcountry cargo into and out of the port is handled almost wholly by railway, for inland river traffic has declined greatly in importance owing to shallow water and other impediments to navigation.

The port and the railways are each run by an autonomous administration operating under a separate budget.

VII. Money and Banking

The banking system consists of the National Bank, five commercial banks, a number of private banks or *sarrafs*, the post office savings bank, and three state-owned longer-term financing institutions, the Industrial Bank, the Agricultural Bank and the Mortgage Bank.

The National Bank succeeded the Iraq Currency Board as the currency-issuing authority in 1949. Iraq is a member of the sterling area, so that its currency is backed principally by sterling assets in London. Although the law permits the currency to be backed up to 30 percent by Iraqi government securities, as of March 31, 1951, the total amount of currency in circulation was more than covered by sterling assets. Aside from its note-issuing function, the Bank is charged with the administration of foreign exchange control and the supervision of the banking system in accordance with a bank control law which became effective at the beginning of 1950. This law requires banks to keep the equivalent of 15 percent of their time and demand deposits as a reserve with the National Bank and to keep 50 percent of these deposits in the form of cash and investments in Iraq. The National Bank is empowered to reduce the reserve requirement to 10 percent and to vary the second between 30 and 70 percent. Since the commercial banks have had no need for recourse to the National Bank in order to replenish their cash resources, the Bank's loans and advances have remained very small. As of March 31, 1951, they

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stood at only ID 650,000, consisting almost wholly of advances to the Baghdad Water Board and the Industrial, Agricultural and Mortgage Banks. Almost all of the remaining assets of the Banking Department consist of Iraqi government securities valued at ID 5,490,000.[3]

There are five commercial banks in Iraq, of which three are foreign banks. Of the two Iraqi banks, one, the Rafidain Bank, was organized and is controlled by the government and serves as the depository of government funds. These banks confine themselves principally to the short-term financing of foreign and domestic trade and have always kept themselves very liquid. Thus, as of March 31, 1951, their total liquid assets, including notes and coin, current accounts abroad, discounts and davances, but excluding the statutory 15 percent reserve maintained with the National Bank, amounted to about 87 percent of their current and short-term liabilities, and even 70 percent when advances which are primarily short-term are kept out of account.[4] The operations of the commercial banks are supplemented by the *sarrafs* which are principally engaged in financing small traders. Their number has been drastically reduced in the last year or two, owing partly to the exodus of the Jews and partly to their failure to meet the requirements of the bank control law that they submit their accounts and divorce their banking and trading operations.

The total foreign exchange assets of the banking system are quite considerable. As of March 31, 1951, they amounted to about ID 50,400,000. Total holdings tend to fluctuate primarily because of the influence of harvests upon exports. Thus a harvest failure in 1947, followed by another bad harvest in 1948, as well as the effect of the outbreak of war with Israel in 1948, were instrumental in reducing holdings from ID 64,900,000 at the end of 1946 to ID 43,400,000 in September 1949. As the result of two successive good harvests, reserves then rose in the ensuing year and a half by ID 7,100,000.

Part of Iraq's sterling assets have been frozen since the war, releases being governed by a five-year agreement effec-

[3] See statement of the National Bank's assets and liabilities in Table II in Appendix.

[4] For a consolidated statement of the principal assets and liabilities of the commercial banks, see Table III in Appendix.

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tive from July 15, 1947. In a supplementary agreement concluded in February 1951 the National Bank obtained an additional release of £2,000,000 and a guaranty of further releases up to £6,000,000 over the next two years, whenever necessary to maintain its free sterling working balances at a level of £6,000,000. As of March 31, 1951, the banking system still held £29,400,000 in blocked sterling out of total sterling assets of £49,700,000. Since Iraq's foreign exchange assets consist almost entirely of sterling, Iraq must apply to the British government for hard currency releases from the sterling area pool to meet dollar payments. Until February 1951 such releases were limited to specific periodic sums, but a new agreement for one year concluded at that time provided that sufficient releases would be made at all times to cover Iraq's essential requirements. There was no specific provision referring to the large requirements arising out of increasing investment outlays.

While short-term financing has not been a problem, the financing of the longer-term capital requirements of industry and agriculture has always been difficult. The amount of savings channeled into the banking system has always been small. Savings accounts in the commercial banks have varied between ID 1,700,000 and ID 2,400,000 over the last two years, and the total savings deposits with the postal system have been less than ID 900,000. Considerably more is undoubtedly saved, but much of it takes the form of hoarding. Thus it is generally assumed in Iraq that virtually all of the 100-dinar notes and a considerable part of the 10-dinar notes in circulation (ID 9,000,000 and ID 9,500,000 respectively as of March 31, 1951) are hoarded. There is a general preference for the investment of capital in urban and rural property, which are regarded as affording a high degree of security, and in commerce which yields a high return. Industry and agriculture have generally been starved of capital, although investments in these fields are slowly becoming more acceptable.

As a partial remedy for this shortage of capital, the government has established three institutions to finance industry, agriculture and building. Although each of these is capitalized at ID 1,000,000, the government has actually furnished only ID 550,000 to the Agricultural Bank, ID 600,000 to the Industrial Bank and ID 100,000 to the Mortgage Bank. While each bank has tried

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to supplement its capital by borrowing and accepting time deposits from certain institutions, their resources have been wholly inadequate to the need.

VIII. Domestic and Foreign Trade and the Balance of Payments

As noted earlier, trade is probably the second most important occupation. To all appearances, the system of distribution is extremely wasteful. Both in the small towns and in the larger cities there are numerous traders with very small stocks of goods, who cannot possibly earn more than an exiguous income, even if their margin of profit is high. The position is, however, not likely to be cured until the general level of incomes rises and there is alternative opportunity for employment.

Iraq produces most of its food, but apart from fuel, tobacco, and some building materials, most of its other requirements must be imported. Even the small local industries and handicrafts depend to some extent on imported raw materials. Much of the trade is therefore foreign trade. Baghdad is the principal center for the import trade and also has a considerable share in the export trade, although Mosul is the main center for the export of wool and Basra for dates and barley.

Although there are a number of large firms, among them several foreign companies, engaged in the export-import business, trade is by no means monopolized, as can be seen from the following table which shows the distribution of import licenses granted:

TABLE 9

IMPORT LICENSES: 1951

Import Quota (ID 000)	Number of Importers		Total Allocation (ID million)
	Baghdad	Other Cities	
100-180	36	18	6.6
50-80	60	24	4.9
20-40	344	147	13.1
5-10	1,015	502	10.3
	1,453	691	34.9

7: International Bank N. S-4 (1951) 1952 MH1 Iraq MH1

thereby put on smuggling which is difficult to control in a country with long land frontiers, even with a large police force. On the other hand, smuggled goods can now be purchased quite openly, and it is hard to believe that enforcement could not be made more effective.

In any event, outright restriction of imports could cause prices to rise and so put almost as great a premium on smuggling as a high tariff. The government has tried to prevent excessive mark-ups on certain goods such as radios by price control measures, but the control is by no means fully effective.

The government has also supplemented the system by entering the market itself. For example, arrangements have been made under the recent Trade Agreement with India for the import of cotton textiles and gunny bags, in part on government account. The government has also made direct purchases from abroad of its own requirements (e.g. tires). The effect has, however, not always been as intended, merchants being hesitant to buy with the prospect of large government stocks hanging over the market.

On the whole, a less complex system of import control would seem better suited to an economy like that of Iraq, whose requirements are likely to change in composition and to increase quite rapidly. Fewer regulations, more strictly enforced, are likely to serve better the two ends of social justice and public revenue.

Balance of Payments

The bulk of foreign transactions are carried out through the commercial banks, which are subject to exchange controls, or through government channels such as the National Bank. However, numerous transactions pass through other channels and many of them are virtually impossible to estimate. For this reason the Mission has not attempted to construct a true balance of payments. Table 14 shows the foreign exchange transactions passing through the principal official channels, so far as they are known to the Mission. The other items which would enter into a complete balance of payments are discussed subsequently.

As will be seen, even this account, which it should ordinarily be possible to balance, is subject to a wide margin of error for which no explanation is available. The general significance of the

TABLE III

Consolidated Statement of Assets and Liabilities of Five Commercial Banks

(in dinars)

ASSETS	Feb. 28, 1950	Feb. 28, 1951	LIABILITIES	Feb. 28, 1950	Feb. 28, 1951
Notes and coin in Iraqi currency..	3,217,543	5,140,227	Paid-up capital	1,650,000	1,800,000
Credit balances with branches and licensed banks in Iraq	1,806,774	3,366,131	Reserves and provisions	386,723	605,576
Deposits with National Bank	3,271,104	5,549,794	Balance profit and loss account	142,682	164,205
Investments, advances and discounts in Iraq:			Debit balances with branches and licensed banks in Iraq	1,936,609	3,637,427
Government loans	2,578,083	2,176,315	Liabilities against credits opened	2,659,820	5,344,375
Bills discounted	813,129	958,506	Demand deposits	13,770,021	13,759,800
Advances	4,338,362	6,384,214	Time deposits	767,889	613,814
Investments	357,276	435,683	Sundry creditors	155,775	573,498
Sundry	31,650	57,188	All other, including government and quasi-government deposits	6,400,251	9,209,011
Deposits and investments payable abroad:					
Foreign government securities	3,502,870	2,252,870			
Other	7,418,652	9,169,608			
All other	534,327	217,170			
Total	27,869,770	35,707,706	Total	27,869,770	35,707,706

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carefully studied by the government. In this study the possibility of offering financial incentives directly to the fellah and of making certain changes in the conditions of tenancy would need to be explored.

IX. Agricultural Credit

If farmers are to purchase fertilizer, more livestock and better draft animals, tools and machinery, they will need access to credit facilities. The Agricultural Bank with a nominal capital of ID 1,000,000 does not at present adequately serve their needs. First of all, its resources have been insufficient. As of March 31, 1950, the latest date for which a balance sheet was made available to the Mission, the capital actually paid in amounted to only ID 500,000. Its lending resources were supplemented to some extent by time deposits totalling ID 136,996. Total loans outstanding aggregated only ID 556,609. Since that date a further capital contribution of ID 50,000 has been made to the Bank, its time deposits have increased somewhat and a loan of ID 150,000, repayable in three annual installments, was obtained from the National Bank in April 1951. A shortage of liquid resources compelled the Bank virtually to suspend lending in November 1949. Not until a year later was it possible to resume credit operations and then only on a modest scale. The Bank has never been able to meet the demand for credit. Although authorized to lend up to ID 3,000 to any individual for a maximum term of 10 years, in practice it has limited the size of its loans to ID 1,000 and the duration to five years.

It would be desirable to increase the capital of the Bank substantially—to a total of perhaps ID 2,000,000. The Development Board would seem to be the logical and probably the only available source of funds for this purpose. The Bank would then be able to repay its debt to the National Bank and still extend its loan operations substantially. At the same time, however, there should be a careful review of the Bank's lending policies to make sure they are sound. In the past there has been a tendency for its loans to become frozen. In the fiscal year 1949-50, for example, only ID 108,333 of the total amount of ID 279,975 in loans falling due was actually received. Maturities were postponed on loans totalling

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453 ID 50,507 and no arrangements for repayment had been made by the end of the year on loans amounting to ID 120,934. A sum of ID 53,303 was received on loans which had fallen due in 1948-49, but in that year the total loans for which due dates were postponed or for which no repayment arrangements were made aggregated ID 98,983. Although the Bank claims it will ultimately be able to collect on all its loans, there appears to be a need for much stricter and prompter collection and perhaps also for more careful scrutiny of loan applications to make sure that they are intended for productive purposes. The Bank must be quite free of any political pressures and capable of granting and collecting loans without fear or favor.

426 453 One of the most difficult problems is the provision of credit to the sharecropping fellah. Under present conditions he cannot get a loan from the Bank because he is unable to offer adequate security. The Bank generally makes loans only on the security of mortgages, although it can also accept as security tangible, nonperishable, movable property other than crops in the field or stored on the farm. To some extent it also grants loans on the guarantee of the government or on the joint guarantee of a number of recipients. Of the loans outstanding on March 31, 1950, ID 538,752 were secured by immovable property, ID 18,634 by joint guarantee and ID 9,601 by government guarantee. The fellah must turn to the landlord or some private moneylender for credit. Under the Law Governing the Rights and Duties of Cultivators enacted in 1933 any advances made by the landlord are in theory free of interest. Actually, however, the "advance" is generally in kind—i.e. in seed, draft animals, machinery, etc.—and the return to the landlord is in the form of a larger share of the crop which conceals a very heavy interest charge. One of the prime needs is to give the fellah access to better means of production and on much more reasonable terms. The organization of cooperatives among the fellahin would seem to be the best means of accomplishing this, since the Agricultural Bank is authorized to lend to cooperatives on the joint guarantee of its members.

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439 million in October 1947 to £43·2 million in December 1949 and £55·5 million in September 1952, and are still rising. In October 1950 the Sterling Balances Agreement was amended to the advantage of Iraq, and in July 1952 the sterling held in No. 2 Account, amounting to some £23 million, was freed from all restrictions.

Banking and Currency

652 Banks in Iraq may be classified as follows:

(1) *The National Bank of Iraq*, whose establishment was authorized in 1947 and completed in 1948. Its functions are laid down as: (*a*) to issue and administer the currency and undertake duties arising therefrom, (*b*) to undertake duties arising from international agreements, (*c*) to undertake duties relating to the control of banking and co-ordination of banking operations, (*d*) to undertake duties arising from the control of foreign exchange, (*e*) to keep the accounts of the Government, (*f*) to undertake transactions relating to Government and semi-Government loans.

(2) *Government Banks* for granting loans of special kinds, namely: Agricultural and Industrial Banks, for the encouragement of agriculture and industry, and separate banks for granting mortgages on movable and immovable property.

453 652 (3) *Commercial Banks* of which one, the Rafidain Bank, is governmental, and four are branches of foreign banks.

453 (4) *Sarrafs*—small local bankers who perform most of the functions of the commercial banks but are more rigidly restricted by law in the extent of their operations. Operating with less formality than the commercial banks, they are widely patronized by business men.

The withdrawal of the Jews from Iraq affected banking profoundly; two large commercial banks and most of the *sarrafs* closed down, with a consequent contraction in the supply of credit, so that rates of interest rose abnormally to the detriment of business. The trade in imported goods suffered particularly, since cash was not available for customs clearance. The problem was solved partly by increased domestic production, partly by the enforcement of a law for the control of banking, which compelled the commercial banks to increase their paid-up capital and reserves held in Iraq, reduce their investments abroad in favour of local investments, and increase the banking facilities afforded to businesses. In consequence commercial banks co-ordinated and expanded their activities, and the opportunities for profit encouraged new *sarrafs* to replace those who had withdrawn. A great deal of banking experience and

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acumen has nevertheless been lost and although the situation has been partly restored, business is still less active than formerly. 453

Banking deposits in December of 1938, 1946, and subsequent years have been as follows (ID):

Year	*Current Accounts*	*Fixed Deposits*	*Savings Deposits*	*Total*
1938	1,231,130	614,928	387,447	2,233,505
1946	13,613,737	3,414,557	2,965,756	19,994,050
1947	12,543,308	2,799,008	2,719,224	18,061,541
1948	12,253,822	1,421,109*	2,302,416	15,977,347
1949	12,271,965	1,322,216	2,389,604	15,983,785
1950	12,994,226	795,361	1,980,305	15,769,892

* From 1948 onwards the fixed deposit item excludes previously included Government accounts.

(SOURCE: Reports of National Bank of Iraq, 1947–50, p. 32.)

Currency. The currency of Iraq is based on sterling and its unit, the Iraqi dinar (ID), is equivalent to £1 sterling and is divided into 1,000 fils (singular also 'fils'). This currency replaced in 1932 the Indian currency which had been maintained under the Mandate, and was issued and administered by an Iraq Currency Board, sitting in London, until 1 July 1949, when the National Bank of Iraq took over the functions of the Board and put its own notes into circulation. 436

The circulation of currency, which in August 1939 stood at ID4,700,000, increased during the war to ID42,100,000 in September 1946. It has since, with some fluctuation, declined and in October 1952 was ID36 million.

Public Finance

Immediately before the Second World War the total state revenues amounted to some 7–8 million dinars. During and after the war there was a steep rise in expenditure: in 1942–3 the expenditure had increased to ID11·6 million, in 1947–8 to ID26·6 million, and in 1948–9, the year of the Palestine conflict, to ID32 million, after which it has declined slightly. Loans were raised to meet the consequent deficit, which a considerable increase in taxes and duties were insufficient to prevent and which in 1948–9 had risen to ID5·3 million. A contributory factor was the closure of the Haifa oil pipeline in that year; but in 1949 and 1950 the construction of a new pipeline to Tripoli more than made up the loss. In 1950–1, with increased revenue and a drop in expenditure, the budget showed a surplus for the first time in seven years, amounting to ID5·4 million. The expansion of oil revenues has been maintained by 651 652

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In fact, as a result of the recent increase in Iraq's income from oil, of which 70 per cent is credited in sterling, to the National Bank for the account of the Development Board, the foreign exchange reserve of the Bank rose from ID 35.1 million in 1949 to ID 83.3 million in 1954, with a corresponding increase in the total assets (excluding cash holdings) of the Bank from ID 41.1 million to ID 94.5 million, respectively. Thus, the foreign exchange reserve has risen from 96 per cent of the total volume of currency issued in 1949, to 177 per cent in 1954, and the National Bank of Iraq's assets from 111 per cent to 201 per cent, respectively. The foreign exchange reserve is principally in sterling, and consists mainly of sterling securities and British Treasury bills.

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It was not until the National Bank of Iraq started operating as the central bank of the State and after passage by Parliament of the law for the Control of Banking in 1950, that banking institutions assumed a greater role in the financial structure. The banking control law provides that all banks and sarrafs 1/ must obtain a licence from the National Bank of Iraq. Private banks, whether established in Iraq or abroad, must dispose of a capital in Iraq of not less than ID 250,000. Banks are required to maintain in Iraq not less than 50 per cent cover, against their total current and fixed deposits, of which 15 per cent must be deposited with the National Bank. However, the National Bank can reduce this proportion to 30 per cent or increase it to 70 per cent.

The National Bank of Iraq

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This bank was established in 1947 as a central bank "to manage the currency and ensure its stability, to serve the State finances, to facilitate internal and external payments and generally to promote and facilitate credits for trade, industry and agriculture". Its capital was fixed at ID 5 million, of which ID 2.5 million was transferred by the Government from the surplus of its Currency Reserve Fund. The other half is "deemed to be reserve guaranteed by the Iraqi Treasury to be covered from the bank's annual profit at the rate of 25 per cent or not more than ID 250,000". In addition to the issue and management of the currency, banking control and exchange control, the bank has issued several small loans to various government and semi-government institutions and non-commercial banks, but its 1954 statements show no outstanding loans or advances.

Commercial Banks

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Institutions operating according to the law for the Control of Banking are the sarrafs and foreign and Iraqi commercial banks. The Iraqi banks include the Rafidain Bank, which was established in 1941 and is actively engaged in commerce. In addition, applications have been filed for the establishment of two new private banks, the capital of which has been subscribed by Iraqi nationals. One of these banks, the Iraqi Commercial Bank, is reported to be already operating. Foreign banks include branches of British banks, such as the Ottoman Bank, the British

1/ A sarraf is defined as "a person or company licensed to deal in banking in Iraq".

453 652 Bank of the Middle East and the Eastern Bank, and branches of banks with head offices in other Arab countries, such as the Arab Bank and the Federal Bank of Lebanon. These banks have mostly confined their activities to lending money on relatively short term to trading firms, and to financing foreign trade. However, as a result of the Development Board's expenditure, the increase in economic activities and the growing confidence of the people in the banking system, commercial banks may extend their activities. There has been a considerable increase in the number of banks and their branches operating throughout Iraq; there were five banks and two licensed sarrafs when the banking control law of 1950 came into effect, while today there are seven main commercial banks with about twenty-four branches in various cities and towns, and more than fourteen licensed sarrafs.

652 Other State Banks

In addition to the Rafidain Bank mentioned above, the Government has established four banks to supply medium-term or long-term credit: the Industrial Bank, Agricultural Bank, and Mortgage and Loan Bank.

In 1935 the Government established the Agricultural and Industrial Bank which was divided in 1940 into the Agricultural Bank and the Industrial Bank, but the two branches were not separated until April 1946. The aim of the Agricultural Bank is to assist agriculturists, through the granting of loans and the renting or selling on deferred payment of agricultural machinery, tools, seeds and fertilizers. It acts as agent for the grading and cleaning of crops, assists in the formation of co-operative societies and invests in agricultural enterprises. The Bank has made contributions in these various fields though its efforts have, in some instances, been handicapped by lack of available funds and by administrative shortcomings. Its nominal capital was ID 1 million, later raised to ID 2 million, and its paid-up capital in 1953 was raised from ID 1 million to ID 1.6 million. At the end of 1954, the Government issued a new ordinance advancing the Bank ID 500,000 to enable it to purchase machines and irrigation pumps and their accessories, to aid small farmers and also to increase its loans. Moreover, it is hoped that it will provide greater help to the small farmers who are to receive ownership of land under the Government's own land distribution schemes. Up to 31 March 1952, the Bank had loaned ID 2.05 million to 8,770 borrowers; of this ID 1.07 million had been repaid. In 1952/53, a further sum of ID 660,000 was advanced to 1,246 borrowers, and ID 146,000 on outstanding loans was repaid. 1/ Most of the loans have been medium-term, usually four to five years, and most have apparently been advanced to large landowners. 2/

The aim of the Industrial Bank is "to develop and assist industry in Iraq and to carry on banking business relating thereto". Its nominal capital was ID 500,000 in 1946, raised to ID 3 million in 1953; its paid-up capital in 1953 was ID 2.3 million. It is authorized to borrow money by the issue of negotiable bonds, or any other means decided on by its Board and approved by the Ministry of Finance. In addition the Industrial Bank, like the Agricultural Bank, has contracted loans,

1/ Statistical Abstract, 1953.

2/ Iverson, op. cit., pages 31 and 32.